REDEFINING UGANDA'S BUDGET PRIORITIES:

A Critique of the 2006/07 Budget

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Acknowledgements

With the exception of the limitation relating to the overall national resource envelop, the single biggest budgetary challenge facing Uganda is the failure to create an adequate balance between the national development expenditure and the growing public administration expenditure. Over the last 10 years, the cost of public administration in the form of political jobs, multiplication of administrative and political units, welfare and tax relief programmes has continued to undermine national expenditure on production and investment programmes. Yet, the absence of a consistent and strategic public dialogue has become a major limitation forming a common response to this problem.

This policy briefing paper has been prepared as part of ACODE's ongoing initiative to stimulate strategic and focused policy discourse on a wide range of public policy issues that have adverse impacts on governance and democratization. This initiative addresses four inter-related but distinct issues: public administration expenditure; Government opposition-relations; governance implications of aid; and the legal and administrative framework for control of the military and para-military groups. ACODE is therefore grateful to the Netherlands Government and DANIDA HUGGO for their support for the first two components respectively.

We are also indebted to various officials from the Ministry of Finance, Planning and Economic Development who provided much needed information and clarifications on a number of issues that has added to the quality of analysis that is presented here. In the same vein, we acknowledge the invaluable contributions of the Participants at the National Policy Dialogue where this paper was first presented. ACODE Research staff and associates and in particular Dr. Elijah Mushemeza, Arthur Bainomugisha and Godber Tumushabe are acknowledged for their invaluable critique to the original draft of this briefing paper.

Executive Summary

The debate over Uganda's ever expanding expenditure on public administration has intensified. There are growing questions about the utility and the impacts of a bloated political administration, financing of a growing portfolio of economically unviable districts, selective cash bail out of individuals and businesses, opportunistic allocation of prime lands including public trust lands and selective tax breaks, etc. Indeed, the ongoing "inflation" in the public administration expenditure budget defeats all logic especially when considered against the apparent under funding of critical priority sectors such as agriculture, industry, social services and, science, technology and innovation.

The purpose of this briefing paper is to elucidate and challenge the current policies and strategies pursued by the Government of the National Resistance Movement - the ruling political party. It is argued that the National Resistance Movement Government both prior and after the introduction of the multi-party political system of Government has pursued economic policies that are devoid of strategic long-term development perspectives. Indeed, the 2006/07 budget and annual budget instruments in general largely reflect the predatory tendencies driven by the survival instincts of political groups at the expense of political leverage accruing from long-term economic transformation of the country and citizens. The paper makes the following conclusion s regarding the 2006/07 budget.

> The ruling National Resistance Movement has a history of consolidating its political power through a clientele political system. This system involves multiplying all forms of political appointments to reward political supporters in spite of the cost to the tax payer. This political patronage is built through creation of new districts, multiplying political jobs such as Cabinet and politically driven infrastructure development projects. The challenge for Government therefore, is how to keep these political patronage networks and constituencies at ease but allocate sufficient resources for investment and production.

> As the project to retain political power has remained number one priority, the citizens are beginning to hold Government at “ransom”, demanding for all kinds of politically driven deliverables. Consequently, a budget that should be an instrument that reflects the strategic development priorities of Government and the country is reduced into a package of welfare programmes and responses to political constituencies. Yet, in many cases, good policy is not what is popular in the short-term but what works in the medium and long-term.

> The 2006/07 budget attempts to put much needed emphasis on promoting manufacturing. UShs.169 billion is set aside for the industrial sector mainly intended to bolster thermal power and hydropower generation. But key private sector concerns such as affordable long-term credit, tax breaks, a dilapidated transport infrastructure and inadequate technical skills remain largely unattended. It is argued that while universal primary education and universal secondary education makes absolute political

and social sense, it does not address the strategic development priorities of the industrial sector where practical skills are a must. Alternatively, while micro-finance make absolute economic and political sense, five years of failed attempts to restructure and recapitalize Uganda Development Bank to provide long-term financing for industrial development only demonstrates the incapacity of Government to use the budget as a development policy instrument.

> It is observed that while 88% of Uganda's population lives in rural areas and is largely dependent on agriculture, agriculture production and output is declining steadily. According to the 2006/07 budget, agriculture registered annual average growth of 0.9 per cent during the three preceding years. This is in spite of the fact that the Plan for Modernization of Agriculture (PMA) which formed the cornerstone of President Museveni's campaign during the 1996 presidential elections should be bearing results. To date, agriculture research and development (R & D) is being given lip service as the banana wilt, the coffee wilt are holding Ugandan rural farmers hostages. Among other things, the welfare and tax relief policies being pursued by Government can only act as a disincentive to rural production. This is because taking away the burden of taxes as well as education and health costs may reduce the pressures of expenditure on the poor rural voters but does not increase their aggregate incomes.

The briefing paper proposes an alternative budget strategy that combines sound economic rationale with the reality of a political party pursuing an agenda of retaining political power. In the context of the 2006/07 budget and any other subsequent budgets, such a strategy would have the following elements:

Reduce defense spending

> Since there has been substantial reduction in the threat paused by insurgency and various other forms of insecurity, the Government can reduce the defense expenditure and invest more funds in development priorities. At the height of the insurgency around 1992, Uganda's defense budget stood at approximately US$42 million. At the moment, defense consumes approximately US$200 million per year. Combined with an onslaught on military related corruption, it is estimated that Government can save up to US$390 million in a space of only four years.

Delay the operationalization of the new districts

> The creation of new districts even when done in the name of "taking services to the people" is one of the causes of the burgeoning costs of public administration expenditure. For 2006/07, the operationalization of the 25 new districts could be delayed for up to a period of four years hence saving and making available over UShs.100 billion for investment in agriculture, energy and science and technology. If these districts are made operational around 2010, it would give the ruling party a lot of campaign capital in the form of new districts amidst improved rural incomes and improved development indicators.

Delay the introduction of Universal Secondary Education (USE)

> According to available estimates, postponing the introduction of Universal Secondary Education (USE) could save the country over UShs.460 billion over the next four years. While USE is a brilliant social development agenda, returns on UShs.460 billion could increase the incomes of rural farmers, service providers and the business community. This is the right strategy to provide quality education rather than overburdening the social development budget.

Sell off all Government vehicles with very limited exceptions

> It is proposed that Government should ground most or all Government vehicles save for a small number of officials. Available evidence suggests that Government owns an estimated 20,338 vehicles (11,277 registered in the names of Government ministries, 4,548 for local governments and 4,513 for semi-autonomous bodies) excluding those owned by Ministry of Defense, State House and Office of the President. In 2003/04, Government spent UShs.31 billion in new car purchases. During FY2005/06, vehicle related expenditures include UShs.28.9 billion on fuel, UShs.28.7 billion on maintenance and UShs.18 billion on new purchases. A pragmatic policy decision to sell off these vehicles would release over UShs.100 billion annually for development and investment expenditure.

Reduce public expenditure on State House

> An alternative budget that promotes national development and pays back the tax payer handsomely has to tame the run away inflationary expenditure in State House and Office of the President. For the FY2006/07, these two offices are allocated UShs.51 billion and UShs.40 billion respectively. This is almost equivalent to ten times the recurrent expenditure of the Ministry of Agriculture. The State House budget alone has increased from UShs.11 billion in 1997/98 representing an increase of 450 percent in less than a decade.

Finally, it is assumed that the budget process consultations are comprehensive providing an opportunity for all stakeholders to provide their input. Yet, there is no evidence that the various proposals by the private sector and the civil society make any statistically meaningful influence on the final budget proposals. Indeed, critical expenditure priorities for these stakeholders as outlined above are not reflected in the budget. Indeed, in spite of the Budget Act that should have empowered Parliament to provide critically needed budget oversight, Parliament still passes as an informal budget discussion forum. Parliament should therefore be challenged to assert it self and redirect national budget priorities as is expected of it under the Constitution and the Budget Act. The cost of not discharging this job is enormous both on the rural voters and the urban tax payers.

1. Introduction

> The Budget, and its progressive evolution, is a powerful index of a society's values, not merely in its language and numbers, but in the lived experience of its impact on people, families, workers, businesses and organisations. The spirit of a people, its cultural level, its social structure, the deeds its people may prepare..... all this and more is written in its fiscal history, stripped off all phrases.......... The public finances are one of the best starting points for an investigation of society , especilly though not exclusively of its political life. (Joseph A. Schumpeter)

The Minister of Finance, Planning and Economic Development, Dr. Ezra Suruma on 15 June 2006 read the 2006/07 national budget for Uganda. According to the budget speech, the economy grew by 5.3 percent over the last financial year.[1] Statistics in the Background to the Budget indicate that construction grew at 13.7 percent, hotels and restaurants at an incredible 21.8 percent while transport and communications at a staggering 20.7 percent.[2] On the negative side, manufacturing growth declined from 13.5 percent over the previous year to -3.5 percent, a factor that was attributed to the current energy crisis. Growth in agriculture was a miserable 0.4 percent; cash crop production declined by 7.4 percent and food production grew by 0.9 percent.[3]

On the external front, again the positive news is that exports of goods grew by 11.6 percent to US$ 877m. However, imports of goods grew by 16.5 percent over the same period to US$ 1.9 billion. This gave Uganda a current account deficit of more than one billion dollars. Also, exports of

[1] Budget speech by the Minister of Finance, Planning and Economic Development, Dr. Ezra Suruma on June 15th, 2006.

[2] Background to the Budget for Financial Year 2006/07: Enhancing Economic Growth and Household Incomes Through Increased Production and Productivity.

[3] ibid.

services grew by 1.1 percent to US$ 413m while imports of services grew 9.5 percent to US$ 814m. Indeed, although growth in earnings from export of goods has almost doubled over the last five years, an even higher growth in import expenditure has kept Uganda with a high current account deficit – at more than US$ 1billion. The same case applies to trade in services. Given that our import expenditure outstrips our export earnings by a factor of more than 2:1, it means that Uganda's currency is stabilized against the dollar mainly by foreign aid (US$ 1.1 billion), remittances by Ugandans living abroad (US$ 500m)[4], and Foreign Direct Investment (FDI) which increased by as much as (or as little as) US$ 15m from 246m in 2004/05 fiscal year to US$ 261 in 2005/06).[5]

The paper seeks to explain whether the budget reflects the macroeconomic objectives of the government.[6] However, the paper focuses specifically on industry, especially energy and manufacturing sub sectors. This is an important area because it is not only a major policy objective of government, but has also been a dominant theme of the President that the country should move away from being an agricultural to an industrial economy, and therefore from being an exporter of raw materials to an exporter of industrial goods (value addition)[7]. The second focus of this paper is agriculture because it is the main stay of Uganda's economy contributing 34 percent of GDP[8] and employing

[4] Bank of Uganda does not have a specific figure on remittances, this is only an estimate.
[5] ibid.
[6] 2006/07 Budget Speech sets out the following areas as "strategic priority actions": Investing in the energy sector, rural development and support to the urban poor, rehabilitation and reconstruction on northern Uganda, Industrial development, support to scientists, development and maintenance of transport infrastructure, defense and national security, justice, law and order, investment in social sectors; Guide to Macroeconomic Management 2004, Ministry of Finance, Planning and Economic Development.
[7] ibid, Museveni, 1992, What is Africa's problem.
[8] Background to the Budget, 2006/07.

78 percent of Uganda's labor force[9] and also because of the President's consistent pronouncements to modernize the sector.[10] As a way of conclusion, this paper will deal with a third issue, which is itself a derivative of the first two i.e. Uganda's external trading position.

The paper also seeks to explain the budget using political lenses, as it were. It will therefore focus on whether the budget seeks to address the problems in the key economic sectors mentioned above given the nature of political demands the sitting government is facing. Looking at the estimates for revenue and expenditure, what can Uganda afford to do or not do for the above economic sectors without compromising the politics of the ruling party? Are the political imperatives of the ruling party to stay in power consistent with its own economic vision for the country? And secondly, what are real government priorities given the budget allocations? And given the pressing economic and political problems the country is facing today, how best could the budget have addressed the often competing demands of politics and economics in a sustainable way? The basis of the argument here is that the state is an arena of political conflict, and budget making is the economic expression of the political needs of the ruling authority.

[9] Uganda Bureau of Statitics, March 2005, The 2002 Uganda Population and Housing Census, Main Report.

[10] Museveni, Yoweri Kaguta, 2006, Prosperity for All, NRM Manifesto, Museveni Y.K. 2001 Consolidating the Achievements of the Movement, Presidential Elections Manifesto, Museveni Y.K. 1996 Tackling the Tasks Ahead, Election Manifesto.

2. Key Budgetary Highlights

Table 1: Annual Real GDP Growth Rates by Sector and Major Activity

Real GDP Growth	2001/02	2002/03	2003/04	2004/05	2005/06
Agriculture	**3.9**	**2.3**	**0.8**	**1.5**	**0.4**
Food crops (monetary)	5.7	3.7	1.7	1.7	0.9
Cash Crops	7.4	4.6	0.3	4.2	-7.4
Industry	**8.2**	**6.7**	**8.2**	**10.8**	**4.5**
Formal Manufacturing.	5.4	4.4	4.9	13.5	-3.5
Electricity and water	5.3	4.5	6.7	5.9	-1.2
Construction (monetary)	13.4	11.6	13.8	11.9	13.7
Services	**8.1**	**5.7**	**8.4**	**8.7**	**9.2**
Wholesale and retail trade	6.2	4.7	3.3	9.1	4.2
Hotels and restaurants	18.1	7.5	19.1	4.5	21.8
Transport and communications	12.3	16.8	21.2	21.4	20.7
Community services	7.0	2.6	6.0	5.0	6.2

Source: Background to the Budget 2006/07

3. The Role of the Budget in Development

Parliamentary Power: Does the Parliament have capacity to influence the budget process to ensure that the budget deliver development? **From Left:** A. Tandekwire, Clerk to the National Assembly, Dr. E. Suruma, Minister of Finance, Hon. R. Kadaga, Deputy Speaker and Hon. E. Sekandi the Speaker of Parliament.

The budget is not only a statement of expected government revenue and expenditure over the next financial year also a statement on how to address current constraints in order to build capacity tomorrow. Development requires the formation of capital for investment.However, the formation of capital spans time, and is characterized by making a choice to forego today's consumption (saving), build up capital, invest it in order to enhance consumption at a later date. The problem with capital formation is that the costs of investment are incurred in the present time, they are therefore certain. Yet the rewards are realized at a future date, and are therefore uncertain.

The biggest challenge to the current government of Uganda is political risk. There are many demands on the state for today's consumption – mainly by the political class.

These demands are for new districts, jobs, and for social services – health clinics, roads, schools etc. The government argues that failure to meet these demands for new districts and political appointments (consumption), can spark off political upheaval.[11] This would certainly render the rewards for investment negative. The challenge facing the budget making process is therefore a political one: how does government ensure that it keeps the different political constituencies at ease while at the same time ensuring that a significant percentage of the budget is shifted from consumption to long term investments?

To better understand the weaknesses of the 2006/07 budget, a much detailed review of selected sectors is presented below.

4. Industry

Last financial year, the energy and water sector declined by 1.2 percent[12] – the estimates for energy alone could have been a negative growth of 5 percent[13]. As a result of this, there was a precipitous decline in manufacturing by 3.5 percent. Manufacturing is a pet subject of the President who says he wants to industrialize this country, and ensure that Uganda adds value to her exports in order to increase her returns from international trade.[14] Indeed, the budget addressed itself to this issue. The government set aside Shs 169 billion. Of this, Shs. 70 billion will immediately go into building thermal plants to ease the problem in the short

[11] Ezra Suruma, Speech at the Conference jointly organized by Daily Monitor and ACODE June 20th, 2006.
[12] Background to the Budget 2006/07.
[13] This is my personal estimate looking at output of energy in 2004/05 (175 Megawatts) to 2005/06 (135 megawatts plus some added thermo generation).
[14] Museveni, Y.K. What is Africa's Problem; Interview on Andrew Mwenda Live, November 17th, 2004; Speech at the Opening of the NRM Delegates Conference at Namboole, December 7th, 2005.

term; UShs. 89 billion will go into the construction of new dams – in the medium term.[15] Both the Minister of Finance, Planning and Economic Development, Dr. Ezra Suruma, and the President, Mr. Yoweri Museveni said government had gotten serious with energy – the budgetary provisions being evidence of this seriousness.[16] According to both the Minister and the President, every year government will be putting up this UShs. 89 billion (US$ 47m) for the construction of hydro electricity dams.

Although this effort is positive, it certainly is not sufficient to meet the crisis given the existing resources available in the country. Indeed, looking at the current expenditure priorities in the budget, there is a lot that could have been done to boost the manufacturing and energy sectors. The budget making process is said to be participatory in the sense that different stakeholders – private sector, civil society, donors – etc are always invited to budget preparatory meetings. However, both private sector and civil society actors complain that these consultative meetings are organized to fulfill a formal obligation, rather than a genuine search for their input.[17] In real fact, both the private sector and civil society groups feel that their input does not find much space in the actual policy pronouncements. This shortfall is particularly important given that Uganda's economic policy strategy is one of private-sector-led export-driven-growth.[18] How can the private sector lead a process where the actual decision making is a preserve of government and international donors?

[15] Suruma, E. Budget Speech June 15th 2006.

[16] New Vision June 16th, speech by Museveni, Y.K. after budget speech.

[17] Interview with Abdi Alam, Chairman Uganda Manufacturers' Association, Kampala, July 11th; 2006 Nyamugasira, W., Rowden, R., (2002), Poverty Reduction Strategies and Coherence of Loan Conditions: Do the New World Bank and IMF Loans Support Countries' Poverty Reduction Goals? The Case of Uganda, ActionAid, Uganda.

[18] Ministry of Finance, Planning and Economic Development 2004, Guide to Macroeconomic Management in Uganda, Policy Briefing Paper.

5. Private Sector Concerns

According to private sector representatives, the biggest constraints facing the manufacturing sector are energy, inadequate access to affordable long term credit, lack of incentives like tax breaks, limited prime land, poor road and rail infrastructure and inadequate skills of a vocational nature. A budget that seeks to promote manufacturing growth through private sector investment would have first listened to manufacturers, and then drawn a budget reflecting concern for the above mentioned constraints. One way of doing this would have been to make more funds available to support investment in energy, recapitalization of Uganda Development Bank (UDB) to ensure accessible and affordable long term credit, tax breaks to promote investment and plans to support vocational education. Such a commitment would be reflected, not in pronouncements, but in real budget allocation.

The budget makes half hearted commitments to the restructuring and recapitalizing of UDB, a process that has lasted the last five years[19]. The budget also offers limited funds for investment in energy production (US$ 83m) and offers no tax breaks for the private sector investment in industry – especially manufacturing. For the last eighteen years, the government has promised to invest in vocational education without ever doing it.[20] The same promise is repeated in the budget. However, this should not be seen as a sign that government is blind to the concerns of the private sector. On the contrary, the accent in this article is not on how government has neglected the private sector,

[19] Budget Speech.
[20] Government White Paper on Education, Budget Speech.

but rather how it has engaged it. In fact, many actors in the private sector are senior members of the ruling party, or have lines of contact with state house. This paper by implication shows how the National Resistance Movement's (NRM) political strategy of rewarding loyal private sector supporters undermines possibilities for policies that ensure robust private sector growth.

6. The Politics of Managing Private Investment

Dr. Ezra Suruma, Minister of Finance Planning and Economic Development displays the Briefcase for the budget. (cover photo.)

From the above discussion, it is clear that the policy and institutional environment in Uganda is harmful to business. NRM's solution is not to change this environment for the collective good of business. Rather, it is to create individual exceptions to it. How? It is difficult to access prime land for the development of hotels and other prime real estate investments and there is no land policy that has been designed to solve this problem. Yet as recent media reports show, private investors often get government prime land for a pittance. There is no policy for granting tax incentives to business, on the contrary there is a law against it. Yet some businesses in Uganda get tax breaks. There are limited institutions from which business can access affordable long term credit. Yet many businessmen do get access to long term cheap credit. Poor road and rail networks make transportation very expensive for business, yet some companies enjoy subsidized transport. The question therefore is not the absence of benefits, but how they are distributed.

The NRM's political strategy of winning over business avoids the use of public policies and political institutions to mediate the relationship between government and business. Instead, it relies on creating personalized channels between business and state house. Here, individual investors get incentives to invest only when they have arranged private meetings with the President. In Uganda today, the benefits include free prime land[21], cash bailouts,[22] tax breaks, cheap credit and subsidized transport. In other words, it is through private petitions to the President personally that investors get incentives which the policy and institutional environment does not provide for. The political utility of such a strategy is clear: it is a way of creating a private sector constituency that is grateful and loyal to the ruling party, particularly the President, and therefore most likely to become a source of campaign financing.

7. The Costs of NRM's Strategy on Business

The social costs of this approach are clear: only those companies with access to the President get the right incentives while those that that do not seek the patronage

[21] In the case of free prime land, the beneficiaries have been Garden City Shopping Mall, Shoprite Shopping Mall at Lugogo Bypass, Sudir Ruparelia with Kitante Courts, Al Waleed with Shimoni, Aya Hamid with former Ministry of Information headquarters in Nakasero, etc.

[22] Government through the Central Bank paid businessman Basajjabalaba US$ 10m in 2003 to relieve his loans to Standard Charted Bank and Stanbic Bank.

of the President and the ruling party pay the price of a bad policy and institutional environment by becoming less competitive. The consequences of this method are obvious: even when well managed, businesses without political association with state house get disadvantaged by less competently managed competitors who have access to cheap long term credit, cash bailouts in the face of indebtedness, free land and tax breaks. The economic costs of this political strategy are to bequeath to the country a state patronage-dependant private sector that cannot compete effectively in international markets – hence a failure to grow through exports. This is likely to leave the private sector vulnerable in case its political godfathers change.

8. Agriculture

According to statistics in the Background to the Budget, agriculture grew by 0.1 percent in 2003/04, 1.5 percent in 2004/05 and at 0.4 percent in 2005/06. Of this, food crop production grew by 1.7 percent in 2003/04, 1.7 percent again in 2004/05 and by 0.9 percent in 2005/06. Cash crops production grew by 0.3 percent in 2003/04, 4.2 percent in 2004/05 and then a steep decline i.e. growth of -7.4 percent in 2005/06.[23] Therefore average growth in agricultural output over the last three years has been 0.9 percent broken down as 1.4 percent growth in food crop production and -0.9 percent growth in cash crop output. According to the 2002 Uganda Population and Housing Census report published by the Uganda Bureau of Statistics in March 2005, 88 percent of the people of Uganda live in rural areas. Secondly 73 percent of all

[23] Background to the Budget 2006/07.

Ugandans are employed in agriculture – of these 68 percent are subsistent farmers. Given that the growth rate of our population is 3.2 percent per year, population growth has outstripped agricultural output by a factor of nearly 4:1 (food crop production by a factor of nearly 3:1 and cash crop production a factor of by 6:1 per year over the last three years. Paradoxically, this is happening when the Plan for the Modernization of Agriculture (PMA)and National Agricultural Advisory Services (NAADS) is supposed to be bearing fruit.

The above statistics should warn us of how precarious the livelihoods of rural Ugandans are increasingly becoming. The largest decrease in poverty in Uganda occurred between 1992 and 2000.[24] Between 1992 and 1997, the most important factor driving poverty reduction was the increased price of coffee on the international market, backed by the liberalization of coffee marketing which spurred competition that allowed farmers to get a higher percentage of the international price of their crop.[25] The coffee boom, coupled with investor incentives of the mid 1990s spurred high economic growth rates. These encouraged large migration from rural to urban areas for work – leading to increased food prices. Studies show that reduction in poverty between 1997 and 2000 was driven by increased demand for food in urban areas.[26]

This evidence is instructive: to reduce poverty requires increasing incomes of farmers. This can be achieved by either increasing farm gate prices of crops, or by

[24] Mwenda, Andrew M. 2006, Sustaining Growth and Achieving Deep Reductions in Poverty; How Uganda Recovered After Conflict in Liebenthal, Bob and White, Luise, Attacking Africa's Poverty; Experience from the Ground, World Bank, Washington DC.

[25] ibid.

[26] ibid.

increasing agricultural productivity – of both land and labor. Government interventions in the market to distort crop prices have always proved costly. Africa, particularly Uganda's history is replete with the tragedy of such interventions. The best strategy therefore is public policies and institutions that increase agricultural productivity. For example, one acre of land in Uganda produces 800 kilograms of maize per year. One acre of land in the Netherlands produces 13,000 kilograms of maize per year. The challenge to Uganda is how to double, then triple and quadruple out put per worker, and per unit of land. With both food and cash crop production in decline, and highly out paced by population growth, it should be obvious that poverty numbers should be getting worse.

9. What does the Budget Promise?

It would be wrong to think that the NRM government is blind to this growing crisis in rural Uganda. On the contrary, the political leadership is aware of it. Like our argument over business above, the question is not one of inaction, but the form of action to deal with the crisis. Therefore, how does the budget address itself to this agrarian crisis? The answer lies in understanding how NRM seeks to win rural constituencies. NRM has cultivated its rural political base through welfare programs like Universal Primary Education (UPE) and basic health care. It has buttressed this with "administrative engineering" by multiplying administrative units and decentralizing 40 percent of the national budget to them. Administrative units – districts, sub - counties and parishes – create jobs for elites in rural areas directly in the political and administrative bureaucracy, and indirectly through contracts to maintain roads, build schools and dispensaries or renovate old ones.

These costs are mainly funded by foreign aid, a factor that should tell us how aid acts as a political resource to lubricate NRM's rural political networks. True there have been pronouncements to intervene in agriculture to improve incentives for farmers. For example, the Minister said in the budget speech that government has covered 344 sub-counties in 37 districts in providing advisory services to farmers in rural areas. Although this figure is low given that the country has over 1000 sub - counties in 83 districts, it is still something to show that government has a policy response. Furthermore, the budget promises to place emphasis on "control of livestock vector and disease outbreaks." Further, the government reported to have carried out "extensive vaccination of animals and controlled plant pests." However, this was only done in the districts of Mukono, Mbale, Soroti and Iganga.[27]

Godber Tumushabe; Executive Director – ACODE during the advocacy week. He advocated for prudent utilization of the nation's scarce resources in order to achieve sustainable development.

[27] Suruma, Ezra, Budget Speech page 26.

More critically, given the extensive way in which bananas and coffee have been destroyed by the wilt across the country, and given the precipitous decline in output as already noted above, one should wonder why the Minister of Finance, Planning and Economic Development found it more appropriate to allocate a recurrent budget of UShs. 36 billion to state house (the residence of the president housing less than one hundred people) and only UShs. 9.4 billion[28] to the recurrent budget of the Ministry of Agriculture, a sector that employs 73 percent of the population.[29] The budget provides that government will make an effort to "empower the sub-county and its structures" to carry out a developmental role. This strategy, to be implemented by "deliberately engaging households in gainful production" will be done by "re-orienting sub-county chiefs to undertake community mobilization." Sub-county chiefs are supposed to be "change agents showing households what commodities to produce."

Many studies show that this patronizing approach to peasants has always failed across time and space.[30] The Sub-county chiefs will also coordinate Savings and Credit Co-operatives. However, Government should not intervene in agriculture to direct farmers on what to produce. That choice needs to be left to the market. The assumption

[28] Draft Estimates of Revenue and Expenditure for the Financial Year 2006/07 (un published).

[29] Uganda National Population and Housing Census – 2002, Uganda Bureau of Statistics, March 2005.

[30] Scott, James (1975), The Moral Economy of the Peasant ; Rebellion and Subsistance in Southeast Asia, Yale University Press, New Haven; Scott, James (1998), Seeing Like a State; How Certain Schemes to Improve the Human Condition Have Failed, Yale University Press, New Haven, Scott, James (1985) Weapons of the Weak; Everyday forms of Peasant Resistance, Yale University Press, New Haven; Bates, Robert (1981), States and Markets in Tropical Africa; The Political Basis of Agricultural Policies, University of Califonia Press, Berkeley; Bates, Robert (1989), Beyond the Miracle of the Market; The Political Economy of Agrarian Development in Kenya, Cambridge University Press, New York; Hyden, Goran (1983), No Shortcuts to Progress, African Development Management in Perspective, Heinemann, Nairobi.

that sub - county chiefs know better which crops fetch better prices is wrong. Peasants, given the right incentives will respond to market dynamics by producing those crops that the market wants. A more optimal approach is one that identifies, through consultations with farmers, the constraints to production and increasing productivity.

10. NRM'S Strategy of Cultivating Rural Constituencies

However, as the crisis in agriculture deepens, NRM is increasingly looking for ways to stem the tide. The NRM's response is not so much with policies and institutional frameworks that increase returns to agriculture but with more welfare benefits, tax relief and credit. As shown above the institutional and policy interventions to increase agricultural productivity are inadequate. However, the scheme to provide welfare, tax relief and administrative and political jobs seem comprehensive. For example, during the 2001 elections, the NRM government responded by reducing the burden of graduated tax from UShs .10,000 to UShs.3,000. During the last election campaigns, it abolished graduated tax all together and market dues, promised free post primary education, and more focus on micro credit.

Taking away the burden of health and education costs plus taxation may reduce the pressures of expenditure on the poor but does not increase their incomes especially in the context of declining agricultural output and productivity. Also, extending ever more expensive micro credit to farmers (average interest rates are 36 percent per year), without concomitant policies and institutions that increase returns to agriculture cannot be a solution to rural poverty. On the contrary, it is likely to compound the agrarian crisis as more peasants will get heavily indebted and loose their only asset – land, to micro credit institutions.

Indeed, to demonstrate the political utility of micro credit, the President's own brother has been placed in charge of the project. Like 'Entandikwa' before it, micro finance is actually political finance, and is therefore not aimed at mobilizing savings for investment, but creating political patronage for NRM's consumption. Missing in the budget were clear policies that favor increasing returns to agriculture. Long term growth in agriculture will form technological change. This calls for polices that increase output per worker and output per unit of land (productivity). Uganda needs new technologies – the use of irrigation, fertilizers, high yielding and fast maturing seed varieties, soil conservation programs, more extension services, pest control, use of tractors, combiner harvesters, animal feed, etc. In other words, more money should be going to create institutions in rural areas that handle agriculture, and inject more resources into the creation and provision of agricultural incentives.

Our analysis is that neither long tem agricultural growth as a precursor for technological change nor a budget that addresses Uganda's agranari crisis are a focus of the sitting government. Rather it is welfare and political jobs arising out of the " administrative engineering"referred to above. These strategies serve NRM's short term political interest of survival, but they destroy part of the economic foundation of its political sustainability in the long term – a vibrant rural economy. I have already noted that another economic foundation of NRM's rural strategy is aid. However, as the political authority in Uganda and international donors continue to squabble, it is likely that foreign aid may decline. If this happens, it will not only expose a huge hole in NRM's strategy, but also may have disastrous political consequences for Uganda. Uganda is therefore experiencing agricultural decline, and the budget is unable to stem the tide because NRM's strategy of political consolidation has privileged state employment and welfare provision in rural areas over investment in increasing agricultural productivity when cultivating its rural political base.

11. The Political Costs

To understand how the politics of the ruling party has shaped the budget, we need to look at the promises made in the run-up to amending the constitution to remove term limits on the presidency, and during the last election campaigns. To amend the constitution and remove term limits, parliament created about 25 new districts, and almost doubled its wages. As it were, the President was too weak, and grateful to stop parliament from allocating itself more pay. During the last Presidential election campaigns, the President abolished most of the taxes that form a revenue base for local governments – graduated tax and market dues.

The new districts increase the cost of government consumption as they create innumerable jobs at both the level of local government level – for local councilors, a bureaucracy and a district executive committee; and at the central government – resident district commissioners, district security, veterinary, forestry, medical, education officers, a district engineer etc. During the election campaigns the President also promised free post primary education. The government has said that the new districts were created to take services closer to the people, and also to avoid political disharmony resulting from some groups feeling neglected.[31] It is common sense that given a limited resource pool, creation of new administrative units diverts scarce resources from service delivery to administrative costs.

Secondly, it is obvious that the demand for districts is driven by the availability of large sums of money to districts through the decentralization of the budget. The new districts thus create opportunities for local elites to access jobs and contracts in the local governments. The driving motive behind new districts therefore is not so much taking service closer to the people, or the threat of political upheaval, but winning support of the rural elites for the President and the ruling party. This means that the current government has placed its political survival above economic investment. This strategy achieves its short term goal of survival, but only at the price of undermining the capacity of the regime to reproduce itself in the long term. Indeed, the government is cushioned against the risk of facing the consequences of its folly by large in-flows of foreign aid.

How does this strategy of buying off elite constituencies help NRM's strategy of penetrating rural areas? First, politicians possess independent political objectives separate from

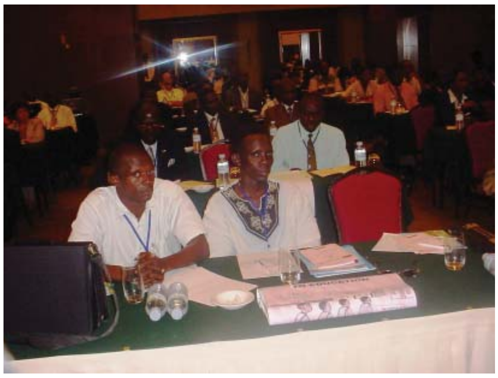
[31] Presentation by Dr. Ezra Suruma at the National Debate organized by Daily Monitor and ACODE on June 21st , 2006.

those of their constituents. Secondly, experience across time and space shows that the source of rural political organization and leadership is actually the elite and large scale farmers in rural areas.[32] In integrating rural elites in administrative jobs in local government, the NRM has cut the head of rural political organization and leadership from the rest of the body, thus crippling the ability of the peasantry to organize around their shared interests. This strategy has actually diverted many rural elites who were large scale farmers and therefore depended on agriculture for a livelihood into seeking it from political administration. This way, NRM has changed the structure of incentives in rural Uganda whereby most earnings now come from working as a state official rather than being a farmer. The fiscal policy of any sitting government should not be engineered for short - term gain, but should instead be directed at strengthening economic capacity and the resources of the state over the long haul.

12. An Alternative Budget Strategy

Given the above mentioned problems in industry (manufacturing and energy) and in agriculture (in both food and cash crops), what kind of budget should Ugandans have listened to? Now we need to look at the budget allocations broadly, focus on the security and political needs of the ruling authority, and then try to examine whether resources could have been better deployed to resolve the problems in the country without undermining the

[32] Bates, Robert (1981), States and Markets in Tropical Africa; Scott, James (1975) The Moral Economy of the Peasant; Moore, Barrington (1968) Social Origins of Dictatorship and Democracy; Erick Wolfe (1968) Peasant Revolutions of the Twentieth Century.



A cross section of participants who attended the advocacy week 20th – 23rd November,2006 organized in conjunction with the Capacity Building Programme of the European Union and ACODE to disseminate findings of the study on Public Administration Expenditure in Uganda.

political authority of the ruling party.This is added for the obvious reason that no government would seek to work itself out of power. A budget is therefore the economic expression of the political needs of the ruling authority. NRM's political survival is an important component of this strategy. This paper in one way therefore seeks to show how NRM can do so much economic good that would actually be critical for its political objective of survival.

13. Financing the Alternative Budget

13.1. In the last two years, there has been a significant decrease in both the intensity and the threats of war in the northern region. Keeping on course the democratisation process, observation of the rule of law and adoption of peacefull resolution of conflicts have the net effect of creating a stable nation hence reduction on defense expenditure. Consequentely, one way of saving money is to reduce the defense and security budgets. Zero tolorance to corruption has also tremendous impact on defense spending. In 1992, the Army, under the command of Brig. David Tinyefuza brought the insurgency in northern Uganda almost to an end. At the time, the defense budget in Uganda was

US$ 42m.[33] Today, that budget is US$ 200m.[34] We already have evidence therefore that US$ 42m is sufficient for our defense needs especially when we keep a light infantry force.

The government argues that the current high expenditure on the army came not only as a result of a growing budget, but also because of the change in the nature of the security threats – from rebels to governments especially when the government of the Sudan became indirectly, and sometimes directly involved in war with Uganda. This called for investment in expensive weaponry like tanks, planes and amour.[35] However, the recent peace deal between the Sudan and SPLA should be a cause to calm our nerves and begin to re-direct resources back to economic investment. According to the Gen. Tinyefuza report on ghost soldiers in the army[36], and given the research on military corruption in the UPDF,[37] it is possible for government to reduce the defense budget from US$ 200m to US$ 70m within four years.

13.2. In a May 2002 presentation, the Permanent Secretary in the Ministry of Finance, Planning and Economic Development (MFPED), also Secretary to the Treasury, Chris Kasami, warned that one major reason for the increase in the cost of public administration was the increase in the number of districts from 39 in 1995 to

[33] Approved Estimates of Revenue and Expenditure for the Financial Year 1992/93.
[34] Approved Estimates of Revenue and Expenditure for the Financial Year 2004/05.
[35] Interview with President Museveni on Andrew Mwenda Live on KFM on November 17, 2004.
[36] Report of the Army High Command Committee into Allegations of Ghost Soldiers, October 2003.
[37] Tangri, Roger and Mwenda, Andrew: "*Military Corruption and Ugandan Politics since the late 1990s.*" in the Review of African Political Economy No. 98, 2003.

56, adding that creation of new positions of Deputy (48) and Assistant (38) Resident District Commissioner (RDC) made matters worse.[38] The average cost of unconditional grants to districts and municipalities is UShs. 1billion[39]. Unconditional grants consist of monies that mainly pay wages for political and bureaucratic employees of the district. In this financial year alone, 25 new districts will come into force, adding an additional UShs. 25 billion per year on the budget. Government could announce that given the crisis in energy and agriculture, it will delay the introduction of these districts for another 4 years, and thereby save UShs. 100 billion over that period. These districts can be finally opened in 2010, in time for NRM to use their opening to win political support in the 2011 elections, this time with an added advantage of better investment in agriculture and energy. There would be more money saved by the central government on 25 new RDCs, their deputies and assistants, 25 new District Internal Security Officers (DISOs), 25 new Women Member of Parliament (MPs) (each MP costs Shs 108m per year, hence UShs. 2.7 billion saved per year for four years).

13.3. Delay the introduction of Universal Secondary Education (USE) for four years. According to the 2006/07 budget, USE begins in January 2007. UShs.30 billion has been allocated for the first half of the year, meaning that the cost per year is UShs. 60 billion. The Ministry of Education and Sports estimates that

[38] MFPED: Public Expenditure Review 2002; Budgetary Aspects of Public Administration, Speech presented by PS/ST, Chris Kasami on May 21, 2002.

[39] MFPED, Medium Term Expenditure Framework FY 2005/06 - 2008/09.

it requires an extra UShs. 220 billion to run USE[40]. According to rough estimates, in next financial year the cost of USE will go to Shs 100 billion, Shs 130 billion in the 2008/09 budget and Shs 200 billion in 2009/10[41] meaning that over the next four years, it will cost Shs 460 billion.

13.4. In May 2002, Kasami[41], warned of the "very rapid growth in the number of commissions, secretariats and semi autonomous government agencies." Kasami noted that "there are currently nine commissions and almost 70 semi autonomous government bodies." He went on: "The proliferation of autonomous and semi autonomous bodies is therefore very expensive..." He further argued that government and parliament do not have the same degree of control on the costs of these bodies. "Most of these bodies also have large Boards of Directors which, are not only costly to maintain but also exercise very little budgetary control. He concluded that many of these bodies simply duplicate government functions. [42] Today, the number has grown to 78 semi autonomous government bodies and 17 commissions taking the total to 95[43]. These bodies are an important instrument of NRM's patronage. In financial year 2001/02, these bodies cost the taxpayer UShs. 447 billion. In 2002/03, this figure had grown to UShs. 538 billion – an almost 30 percent growth in just a year. In 2001/02, the actual operating expenditure on wages was 165 billion. This increased to UShs. 212 billion in 2002/03 financial year,

[40] MFPED source. Requested for anonymity for the time being (interview in Kampala on July 26th, 2006).
[41] ibid.
[42] Kasami, Chris 2002, ibid.
[43] Information availed by MFPED for this research.

again an increase of over 30 percent in just one year. Donor support for these institutions almost doubled from UShs. 50 billion in 2001/02 to UShs.92 billion in 2002/03. This is one area where a lot of money could be saved.

13.5. Another extravagant cost on government is official vehicles. Currently government owns 20,338 motor vehicles (11,277 are registered in government ministries, 4,548 in local government and 4,513 in semi autonomous agencies). This number does not include the vehicles owned by the ministry of defense, state house and president's office – institutions with a combined budget of UShs. 440 billion – 12 percent of the budget. Last financial year, government spent UShs. 28.9 billion on fuel alone, UShs. 28.7 billion on maintenance and UShs. 18 billion on new purchases, an improved position given that in 2003/04 government spent UShs. 31 billion on new cars.[44] This wastage is appalling. For example, the Ministry of Health owns 3,066 motor vehicles. Most of these are 4WD vehicles. Yet Uganda's dispensaries and hospitals go without ambulances. A recent restructuring exercise to curb wasteful expenditure on government motor vehicles in Rwanda reduced the costs of fuel and maintenance from US$ 12m per year to US$ 2m.[45] Uganda could emulate this example.

13.6. Taming State House and President's Office. State House is the residence of the President where he also hosts his private offices. This financial year, it has

[44] MFPED, Vehicle use in the Public Sector, Volume 1: Draft Study Report, June 2006.
[45] Interview with President Paul Kagame of Rwanda, Kigali April 4th, 2005.

been allocated UShs. 51 billion.The President's Office which is the official office of the President has been allocated UShs. 40 billion. This gives the presidency a budget of UShs. 91 billion, ten times the size of the recurrent budget of the Ministry of Agriculture. In fact if you subtract the budget for the Internal and External Security organisation, Office of the President was allocated UShs. 13 billion compared to State House's UShs. 51 billion. This shows that the private office of the President is increasingly taking a larger share of the budget. Politically, this reflects the increasing 'informalization' of power in the country, and the fusion of the office of the president with the person of the president. In 2004, Parliament complained that the budget for the Office of the President is "top heavy with administrative costs, staff salaries, allowances and medical expenses accounting for 60 percent."[46] The committee of parliament noted that "The structure of State House budget is the most growing."[47] This fact is very true given that in 1997/98 it was UShs. 11 billion – a 450 percent increase in the cost of maintaining the head of state in just under a decade.[48] State House has also been the most undisciplined institution in managing its budget, always asking for large supplementary budgets – hence the variance between actual budget and budget outturn are very big.[49] This budget could be down by two thirds.

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[46] Report of the Committee on Presidential and Foreign Affairs on the Indicative Preliminary Revenue and Expenditure Framework for FY 2004/05.

[47] ibid.

[48] MTEF 1997/98 – 1999/2000.

[49] MTEF 1997/98 – 2005/06.

13.7. Reducing on the cabinet, presidential advisors and assistants: this category has also grown rapidly over the years. From a cabinet of 37 in 1993, Uganda now has 69 ministers. The category of "Presidential" has six titles – Senior Presidential Advisors, Assistant Senior Presidential Advisors, Presidential Advisors, Special Presidential Envoy, Special Presidential Assistant, and Deputy Special Presidential Assistant. Their numbers have been growing rapidly, especially since 1996. In 1994, there were only 4 Presidential Advisors. In 2002 alone, 32 Presidential Advisors and Assistants were appointed,[50] just after the 2001 election – reflecting the use of these jobs to distribute patronage. Today, the number of Presidential Advisors and Assistants is 114, a huge cost to the taxpayer. Would the government fall if half the cabinet and three quarters of these advisors were removed to release revenue for investment in energy, private sector growth and agriculture?

13.8. Corruption in government: the major source of leaks in government revenue is corruption. There is no study yet to show how much money is lost to corruption in this country. But it is apparent that if tighter control measures were taken, a significant percentage of revenue vital for important expenditure areas like investment in energy, improved agricultural technology and export promotion would be availed.

13.9. Development budget: one of the creative ways of availing new money for investment is to restructure the development budget. A significant percentage of

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[50] Kasami, C ibid

the development budget goes to recurrent expenses. This is partly because a lot of development work requires significant recurrent expenses (e.g. building a road may require a lot of fuel, salaries, motor vehicle maintenance etc). However, another reason is that government bureaucrats who work in development projects design them more for their personal benefit than for the intended beneficiaries. Just to give one example. In the Ministry of Agriculture development budget for 2005/06, there is an item called "Agriculture Sector Support Program Phase 11. It has a budget of UShs. 1.2 billion of which UShs. 708m is staff allowances and UShs. 144m motor vehicle maintenance.[51] There is therefore a need to reassess the concept of development budgets generally.

14. Conclusion

This paper has noted above that there is an urgent need to re-orient the budget by controlling government consumption in order to increase the resources available for investment. This investment is necessary in both social overhead capital – roads, power dams, education and health and in directly productive activities like providing long term credit at affordable interest rates to the private sector, with a bias to those investing in export of value added goods.

If there are better investments in improving the technology of agriculture, if more roads and power plants are built, and if there are more incentives – both monetary and fiscal

[51] MFPED, Approved Estimates of Revenue and Expenditure (Revenue and Development) 2005/06 page D29.

– to the private sector for investment in export promotion areas, Uganda would be able to improve her balance of payment account, and reduce dependence on donors.

Finally it is important to add that a more prudent budget is one that seeks to increase private sector productivity so that government collects more revenue from increased output per worker, than the current attempt to squeeze the last coin out of existing taxpayers.

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